

Auditor's report

Ekurhuleni Metropolitan Municipality

30 June 2016

Report of the auditor-general to the Gauteng Provincial Legislature and the council on Ekurhuleni Metropolitan Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ekurhuleni Metropolitan Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ekurhuleni Metropolitan Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 41 to the financial statements, the municipality is the defendant in various claims and disputes. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered in the financial statements of the Ekurhuleni Metropolitan Municipality during the year ended 30 June 2016.

Material impairments

10. As disclosed in note 13 to the financial statements, the trade and other receivables balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R7 631 080 181 (2015: R9 144 328 715 which represents 58% (2014: 68%) of total consumer debtors. The contribution to the provision for debt impairment was R 1 112 300 953 (2014-15: R 2 164 385 255).

Material losses

11. As disclosed in note 53 to the financial statements, the municipality incurred material losses amounting to R759 000 125 (2014-15: R707 966 059) as a result of water distribution losses, which represents 30.60 % (2014-15: 32.11%) of the total water purchased. The total technical losses of water amounted to R113 850 019 (2014-15: R106 194 909. Non-technical losses amounted to R118 404 020 (2014-15: R121 132 993).
12. As disclosed in note 53 to the financial statements, material losses amounting to R1 327 872 680 (2015: R748 033 030) were incurred as a result of electricity distribution losses which represent 15.64 % (2014-15: 10.06 %) of total electricity purchased. The total technical losses of electricity amounted to R78 344 488 (2014-15: R44 133 949). Non-technical losses amounted to R129 334 799 (2014-15: R31 118 174).

Material underspending on the capital budget

13. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the budget on capital projects to the amount of R564 571 359 which represent 22% of the total allocated budget.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected intermediate outcomes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected intermediate outcomes presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Intermediate outcome 1.1.1: Regional Accessible Public Transport Network Development on pages xx to xx
 - Intermediate outcome 1.1.2: Invest in On-Grid Long Term Infrastructure on pages xx to xx
 - Intermediate outcome 1.1.3: Develop Long Term Informal Settlements Plan on pages xx to xx
 - Intermediate outcome 1.1.4: Develop Long Term Informal Settlements Plan on pages xx to xx
 - Intermediate outcome 4.3.1: Integrate Service Delivery and Citizen Responsibility on pages xx to xx
 - Intermediate outcome 5.4.1: Strategic Acquisition and Management of Key Assets on pages xx to xx
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes.

Additional matters

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected intermediate outcomes, I draw attention to the following matters:

Achievement of planned targets

22. Refer to the annual performance report on pages x to x; x to x; x to x and x to x for information on the achievement of planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following selected intermediate outcomes.
 - Intermediate outcome 1.1.1: Regional Accessible Public Transport Network Development on pages xx to xx
 - Intermediate outcome 1.1.2: Invest in On-Grid Long Term Infrastructure on pages xx to xx
 - Intermediate outcome 1.1.3: Develop Long Term Informal Settlements Plan on pages xx to xx
 - Intermediate outcome 4.3.1: Integrate Service Delivery and Citizen Responsibility on pages xx to xx
 - Intermediate outcome 5.4.1: Strategic Acquisition and Management of Key Assets on pages xx to xx
24. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Procurement and contract management

27. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by Supply Chain Management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Internal control

28. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are

limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

29. The accounting officer did not exercise adequate oversight responsibility regarding compliance with laws and regulations.

Financial and performance management

30. Management did not ensure adequate controls are designed, implemented and monitored to ensure compliance with laws and regulations.

Other reports

31. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed

Investigations

32. During the financial year 56 investigations by the internal audit division of the municipality relating mainly to non-compliance with SCM regulations, fraud and financial misconduct were conducted. Twenty-two of these were carried forward from the previous financial year. Of these, 34 investigations were finalised and 22 of the investigations were in progress.

Auditor General

Johannesburg

30 November 2016



Auditing to build public confidence



Dr. Imogen Mashazi
Accounting Officer
Ekurhuleni Metropolitan Municipality
PO Box 1245
Germiston

30 November 2016

Dear Dr I Mashazi

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ekurhuleni Metropolitan Municipality for the year ended 30 June 2016.

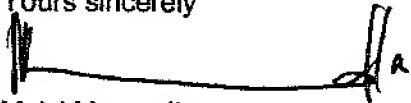
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa (Act No. 108 of 1996) and section 121 (3) of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003)(MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. Your attention is drawn to sections 121(4) and 127(1) of the MFMA with regard to the inclusion of this audit report in the annual report of your entity and the submission of said annual report to the municipal manager of the parent municipality.
4. Until tabled in council by the Mayor of the parent municipality as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

- Please submit 5 copies of the annual report to the Stakeholder Liaison Manager, 61 Central Street, Houghton.
- 6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
- 7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Msizi Mavundla
Senior Manager: Gauteng Business Unit

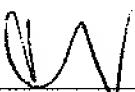
Enquiries: Lerato Poole
Telephone: (011) 703 7814
Fax: (011) 703 7690
E-mail: leratob@agsa.co.za

DATE: 09 December 2016

To whom it may concern

I, Dr I Mashazi, in my capacity as the City Manager of Ekurhuleni Metropolitan Municipality hereby agree to the factual content of the consolidated audit report and the management report of the Ekurhuleni Metropolitan Municipality and its subsidiaries for the year ended 30 June 2016.

Yours faithfully



Accounting officer

OFFICE OF THE CITY MANAGER

LETTER



To: THE AUDITOR-GENERAL

Ref: Office of the City Manager

Enq: Linda Naicker

E-mail: Linda.Naicker@ekurhuleni.gov.za

Head Office
EGSC BUILDING
CNR CROSS & ROSE STR

Private Bag X1069
Germiston 1400
South Africa

Tel: (011) 999-0760

www.ekurhuleni.gov.za

Date: 08 December 2016

REPRESENTATION LETTER

1. This representation letter is provided for the purposes of your audit of the financial statements, the annual performance report and compliance with legislation of the Ekurhuleni Metropolitan Municipality and its subsidiaries for the year ended 30 June 2016.
2. We confirm the following in respect of our responsibilities relevant to the audit as set out in the engagement letter agreed to on 2 February 2016.

Information provided

3. We have provided you with:
 - access to all information of which we are aware that is relevant to the audit, such as records, documentation, minutes of meetings of executive management, the accounting authority, the council, audit committees and any other subcommittees of those charged with governance held to date and other matters
 - additional information that you have requested from us for the purpose of the audit
 - Unrestricted access to persons within the Municipality from whom you determined it necessary to obtain evidence.

Audit of financial statements

4. We have fulfilled our responsibility for the preparation of the financial statements in accordance with GRAP and the MFMA, in particular that the financial statements are fairly presented in accordance therewith.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable except for the matters described in Annexure A.
6. All known instances of non-compliance or suspected non-compliance with legislation, which we were aware of, and whose effects should be considered when preparing

financial statements have been brought to the attention of the auditor, except for the matters described in Annexure A.

7. Restatements made to correct material misstatements in the prior year figures are valid and are appropriately accounted for in the financial statements, except for the matters described in Annexure A.
8. The identity of all related parties, the related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of GRAP, except for the matters described in Annexure A.
9. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GRAP, except for the matters described in Annexure A.
10. All events subsequent to the date of the financial statements and for which MFMA requires adjustment or disclosure have been adjusted or disclosed, except for the matters described in Annexure A.
11. The going concern assumption was appropriately applied in the preparation of the financial statements and there are no significant uncertainties identified on the municipality's ability to continue as a going concern, except for the matters described in Annexure A.

Audit of predetermined objectives

12. We have fulfilled our responsibility for the preparation of the annual performance report in accordance with the performance management and reporting framework. The matters described in Annexure A are those relating to the selected intermediate outcomes that are scoped into this engagement that have not been corrected.
13. Significant assumptions used by us in making estimates are reasonable, except for the matters described in Annexure A.
14. All events subsequent to the date of the annual performance report that required the annual performance report to be amended or disclosed have been adjusted or disclosed, except for the matters described in Annexure A.
15. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, except for the matters described in Annexure A.

Audit of compliance with legislation

16. We have fulfilled our responsibility to ensure that we comply with legislation applicable to the Municipality, except for the matters described in Annexure A on the subject matters scoped into this engagement.

Internal control

17. We have fulfilled our responsibility as set out in the engagement letter dated 2 February 2016, for designing, implementing and maintaining internal control necessary to enable the preparation of financial statements and the annual performance report information that are free from material misstatement, whether due to fraud or error, as well as to enable compliance with legislation. We believe that the internal control that we have maintained is adequate for these purposes and have functioned effectively throughout the financial year, except for the matters described in Annexure A.

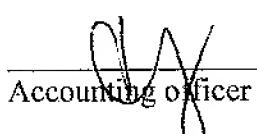
Prevention and detection of fraud and error

18. We have fulfilled our responsibility to perform a risk assessment and develop a risk management strategy, which includes a fraud prevention plan.
19. We have provided you with the results of our assessment of the risks of material misstatement as a result of fraud or error.
20. We have disclosed to you all the information in relation to fraud, suspected fraud or allegations of fraud which we are aware of, or which has been communicated by employees, former employees, regulators and others, and which affects the entity and involves:
 - management
 - those charged with governance
 - employees who have significant roles in internal control

Other information to be included in the annual report (*if applicable*)

These representations are made at your request and to supplement audit evidence obtained by you and to confirm information given to you orally during the audit.

Yours faithfully



Accounting officer